

CITY OF OSAGE

**INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2011)		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2012
Carolyn Johnson	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2012
Bev Miller	Treasurer	Jan 2012
Richard Gross	Attorney	Jan 2012
Jerry Dunlay	Director of Public Works	Jan 2012
John Michels	Park Commissioner	Jan 2016
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Vacant	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Herb Wright	Library Trustee	Jul 2012
Pam Masmar	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013
(After January 2011)		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2012
Carolyn Johnson	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2012
Bev Schuler*	Treasurer	Jan 2012
Richard Gross	Attorney	Jan 2012
Jerry Dunlay	Director of Public Works	Jan 2012
John Michels	Park Commissioner	Jan 2016
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Vacant	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Herb Wright	Library Trustee	Jul 2012
Pam Masmar	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013

* Bev Miller changed her name to Bev Schuler.

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the primary government financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Osage, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Osage as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, Osage Municipal Utilities has issued separate financial statements for which other auditors have issued their report dated September 19, 2011.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2011 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 28 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.



Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
September 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 55.5%, or approximately \$2,869,000, from fiscal 2010 to fiscal 2011. Capital Grants decreased approximately \$277,000, Grants and contributions not restricted to specific purposes increased approximately \$244,000 and note proceeds increased \$2,495,000.
- Disbursements of the City's governmental activities increased 42.9%, or approximately \$2,262,000, in fiscal 2011 from fiscal 2010. Culture and recreation and debt service disbursements increased approximately \$206,000 and \$3,055,000, respectively.
- The City's total cash basis net assets increased 10%, or approximately \$490,000 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$522,000 and the assets of the business type activities decreased approximately \$32,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

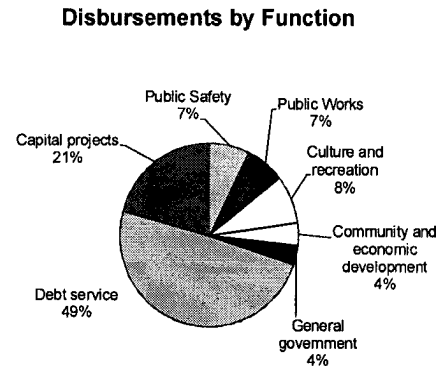
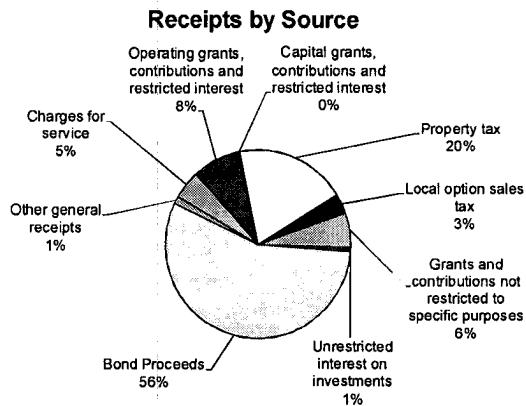
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$3.448 million to \$3.970 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 400	\$ 225
Operating grants, contributions and restricted interest	662	455
Capital grants, contributions and restricted interest	13	290
General receipts:		
Property tax	1,566	1,479
Local option sales tax	273	304
Grants and contributions not restricted to specific purposes	462	218
Unrestricted interest on investments	65	93
Note proceeds	4,505	2,010
Other general receipts	96	99
Total receipts	8,042	5,173
Disbursements:		
Public safety	545	542
Public works	532	579
Culture and recreation	632	426
Community and economic development	298	586
General government	271	246
Debt service	3,688	633
Capital projects	1,566	2,258
Total disbursements	7,532	5,270
Change in cash basis net assets before transfers	510	(97)
Transfers, net	12	12
Change in cash basis net assets	522	(85)
Cash basis net assets beginning of year	3,448	3,533
Cash basis net assets end of year	\$ 3,970	\$ 3,448



The City's total receipts for governmental activities increased 55.5%, or approximately \$2,869,000. The total cost of all programs and services increased approximately \$2,262,000, or 42.9%. The significant increase in receipts was primarily the result of note proceeds received to refinance the Pool Project (CRC) Debt for additional construction expenses and provide \$325,000 loan to the Cedar River Complex. The increase in cost was due to the re-payment of the Pool Project (CRC) debt and the accelerated payment of 2002 Street Construction and Tele-communications bonds.

The cost of all governmental activities this year was \$7.532 million compared to \$5.270 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$6.493 million because some of the cost was paid by those who directly benefited from the programs (\$400,576) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$637,747). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in 2011 from approximately \$971,000 to approximately \$1,038,323. The City paid for the remaining "public benefit" portion of governmental activities (\$6,493,399) with taxes (some of which could only be used for certain programs), bond proceeds in fiscal year 2011 and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 378	\$ 382
Sewer	469	474
Solid waste	137	136
Operating grants, contributions and restricted interest	1	6
General receipts:		
Unrestricted interest on investments	29	34
Bond Proceeds	-	-
Total receipts	<u>1,014</u>	<u>1,032</u>
Disbursements:		
Water	410	363
Sewer	491	516
Solid waste	133	133
Total disbursements	<u>1,034</u>	<u>1,012</u>
Change in cash basis net assets before transfers	(20)	20
Transfers, net	<u>(12)</u>	<u>(12)</u>
Change in cash basis net assets	(32)	8
Cash basis net assets beginning of year	<u>1,448</u>	<u>1,440</u>
Cash basis net assets end of year	<u>\$ 1,416</u>	<u>\$ 1,448</u>

Total business type activities receipts for the fiscal year were approximately \$1.014 million compared to approximately \$1.032 million last year. The cash balance decreased by approximately \$32,000 from the prior year. Total disbursements for the fiscal year increased by 2.2% to a total of approximately \$1.034 million; mostly due to work done on Well #4 to seal and re-case the well.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Capital Project, 2008 Street Project cash balance increased \$53,654 from the prior year to \$723,161. The increase is due to funds being set aside for future debt service payments.
- The Capital Project, Pool Project (CRC) was closed due to completion of construction.
- The Capital Project, 2010 Street Project cash balance decreased \$154,353 from the prior year to \$(48,211). The deficit will be reduced as property owners make assessment payment over the next 10 years.
- The Capital Project, Public Safety Building Project cash balance increased \$201,815 from the prior year to \$264,742 due to receipt of a grant and donations. Funds will be used to make debt service payments on the building.
- Road Use Tax Fund cash balance increased \$33,328 from the prior year to \$317,239 due to increased revenue from the State of Iowa and reduced capital equipment expenditures.
- The Local Option Tax Fund decreased \$37,053 from the prior year to \$132,990 due to expenditures for demolition of the old City Hall/Fire Station building.
- The Tax Increment Fund cash balance increased \$359,044 from the prior year to \$723,090 due to Urban Renewal Revenue Bond proceeds of \$414,500 required to be set aside in a Reserve fund until the 2010 Urban Renewal Revenue Bonds are paid in full.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$15,843 to \$816,830, due primarily to expenditures, \$56,512 for re-casing Well #4.
- The Sewer Fund cash balance decreased \$10,132 to \$492,522, primarily due to a decrease of industrial usage.
- The Solid Waste Fund cash balance decreased \$5,529 to \$106,827.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2011 and resulted in an increase in operating disbursements related to expenditures in Culture and Recreation, Community and Economic Development, Debt Service, and Capital Projects.

The City's receipts were \$286,071 more than budgeted.

Total disbursements were \$663,946 less than the amended budget. This was primarily due to the Fire Truck purchase which was budgeted, but delayed until July 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$7,725,000 in bonds and other long-term debt, compared to approximately \$6,773,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation notes	\$ 3,364	\$ 3,470
Revenue bonds	4,361	3,303
Total	<u>\$ 7,725</u>	<u>\$ 6,773</u>

Debt increased as a result of note proceeds received for Pool (CRC) construction, loan to Cedar River Complex and loan for the Public Safety Building.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,364,000 is significantly below its constitutional debt limit of \$7.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year 2012 budget, tax rates and fees. Property taxes and service fees provide 66% of the revenues necessary to provide services to the citizens of Osage.

The City property tax levy rate for fiscal year 2012 will be increased to 12.94349 from 12.8535. The rate change coupled with property valuation increases will result in an additional \$51,566 in tax revenue. The additional tax revenues will be used for General Fund activities. Tax Increment Financing Districts continue to produce revenue to fund economic development activities and debt service payments for the Pool/CRC project and Public Safety Building. Local Option Tax revenues are used to reduce property tax asking and provide funding for street improvements. Hotel/Motel taxes provide supplemental funds for Recreation, Tourism, and other community enhancements. Water & Sewer usage rates will be adjusted to reflect 2010 CPI increase of 2.5%.

Citizens have witnessed multiple Capital Projects in the community over the past several years. The Police & Fire departments moved into the new Public Safety Building in the fall of 2010. In April of 2011, Valent Biosciences Corporation announced plans to invest \$150 million in a new manufacturing facility in Mitchell County, adjacent to the Osage City limits. The company expects to add 90 jobs in the community. A to Z Drying, Inc. will also be expanding their facilities. No new capital projects are planned for 2011-12.

The residents of Osage continue to be impacted by state, national and international economic issues. Local employment remains fairly stable, home foreclosures are few in number and existing homes are being purchased. Several local contractors are participating in the Community Development Block Grant Single Family New Construction Program. Eight new residences are occupied under construction and four more homes are expected to be built. Discussions are underway with property owners to annex land into the City and develop a housing sub-division.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 544,783	15,296	3,925	8,348
Public works	532,216	254,092	337,641	-
Culture and recreation	631,683	84,293	127,367	-
Community and economic development	297,984	420	-	4,225
General government	271,159	46,475	-	-
Debt service	3,688,210	-	193,453	-
Capital projects	1,565,687	-	-	-
Total governmental activities	7,531,722	400,576	662,386	12,573
Business type activities:				
Water	409,653	377,797	-	-
Sewer	490,795	468,872	1,093	-
Solid waste	132,621	137,092	-	-
Total business type activities	1,033,069	983,761	1,093	-
Total	\$ 8,564,791	1,384,337	663,479	12,573
General Receipts:				
Property tax and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Bond Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Nonspendable				
Restricted:				
Urban renewal purposes				
Debt service				
Streets				
Other purposes				
Committed				
Assigned				
Unassigned				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(517,214)	-	\$ (517,214)
59,517	-	59,517
(420,023)	-	(420,023)
(293,339)	-	(293,339)
(224,684)	-	(224,684)
(3,494,757)	-	(3,494,757)
(1,565,687)	-	(1,565,687)
(6,456,187)	-	(6,456,187)
-	(31,856)	(31,856)
-	(20,830)	(20,830)
-	4,471	4,471
-	(48,215)	(48,215)
(6,456,187)	(48,215)	\$ (6,504,402)
\$ 976,839	-	\$ 976,839
589,219	-	589,219
-	-	-
272,738	-	272,738
462,058	-	462,058
64,692	28,712	93,404
4,505,000	-	4,505,000
95,844	-	95,844
12,001	(12,001)	-
6,978,391	16,711	6,995,102
522,204	(31,504)	490,700
3,447,707	1,447,683	4,895,390
\$ 3,969,911	1,416,179	\$ 5,386,090
\$ 104,903	-	\$ 104,903
723,090.00	-	723,090
152,256	17,906	170,162
317,239	-	317,239
57,952	-	57,952
868,110	-	868,110
1,248,812	-	1,248,812
497,549	1,398,273	1,895,822
\$ 3,969,911	1,416,179	\$ 5,386,090

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

		Special Revenue		
		Road	Tax	
		Use	Increment	Debt
	General	Tax	Financing	Service
Receipts:				
Property tax	\$ 652,663	-	-	-
Tax increment financing	-	-	589,220	-
Other city tax	37,021	-	-	-
Licenses and permits	8,049	-	-	-
Use of money and property	31,715	-	8,825	2,103
Intergovernmental	132,336	319,243	-	-
Charges for service	88,185	-	-	-
Special assessments	12,724	-	-	204
Miscellaneous	256,416	-	60,000	193,453
Total receipts	1,219,109	319,243	658,045	195,760
Disbursements:				
Operating:				
Public safety	544,101	-	-	-
Public works	239,662	285,915	-	-
Culture and recreation	475,159	-	154,755	-
Community and economic development	92,723	-	112,562	-
General government	268,730	-	-	-
Debt service	-	-	3,066,198	622,012
Capital projects	-	-	-	-
Total disbursements	1,620,375	285,915	3,333,515	622,012
Excess (deficiency) of receipts over (under) disbursements	(401,266)	33,328	(2,675,470)	(426,252)
Other financing sources (uses):				
Note Proceeds	-	-	4,145,000	-
Operating transfers in	571,357	-	-	446,903
Operating transfers out	(151,474)	-	(1,110,485)	-
Total other financing sources (uses)	419,883	-	3,034,515	446,903
Net change in cash balances	18,617	33,328	359,045	20,651
Cash balances beginning of year	490,353	283,911	364,045	131,605
Cash balances end of year	\$ 508,970	317,239	723,090	152,256
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Urban Renewal purposes	-	-	281,662	-
Debt service	-	-	441,428	152,256
Streets	-	317,239	-	-
Other purposes	-	-	-	-
Committed	-	-	-	-
Assigned	11,421	-	-	-
Unassigned	497,549	-	-	-
Total cash basis fund balances	\$ 508,970	317,239	723,090	152,256

See notes to financial statements.

Exhibit B

Capital Projects	Nonmajor	Total
-	257,675	\$ 910,338
-	-	589,220
-	302,061	339,082
-	-	8,049
17,254	19,430	79,327
-	18,642	470,221
-	12,530	100,715
251,486	-	264,414
177,233	88,457	775,559
445,973	698,795	3,536,925
-	682	544,783
-	6,639	532,216
-	1,769	631,683
-	92,699	297,984
-	2,429	271,159
-	-	3,688,210
1,565,687	-	1,565,687
1,565,687	104,218	7,531,722
(1,119,714)	594,577	(3,994,797)
360,000	-	4,505,000
1,204,606	52,700	2,275,566
(350,107)	(651,499)	(2,263,565)
1,214,499	(598,799)	4,517,001
94,785	(4,222)	522,204
1,142,606	1,035,187	3,447,707
1,237,391	1,030,965	\$ 3,969,911
-	104,903	\$ 104,903
-	-	281,662
-	-	593,684
-	11,759	328,998
-	46,193	46,193
-	868,110	868,110
1,237,391	-	1,248,812
-	-	497,549
1,237,391	1,030,965	\$ 3,969,911

City of Osage

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds		
	Water	Sewer	Solid Waste
			Total
Operating receipts:			
Charges for service	\$ 377,797	468,872	137,092
			\$ 983,761
Operating disbursements:			
Business type activities	409,653	275,431	132,621
			817,705
Excess (deficiency) of operating receipts over (under) operating disbursements	(31,856)	193,441	4,471
			166,056
Non-operating receipts (disbursements):			
Interest on investments	16,013	10,699	2,001
Miscellaneous	-	1,092	
			1,092
Debt Service	-	(215,364)	
			(215,364)
Net non-operating receipts (disbursements)	16,013	(203,573)	2,001
			(185,559)
Excess (deficiency) of receipts over (under) disbursements	(15,843)	(10,132)	6,472
			(19,503)
Other financing sources (uses):			
Bond Proceeds	-	-	-
Operating transfers in	-	479,913	-
			479,913
Operating transfers out	-	(479,913)	(12,001)
			(491,914)
Total other financings sources (uses)	-	-	(12,001)
			(12,001)
Net change in cash balances	(15,843)	(10,132)	(5,529)
			(31,504)
Cash balances beginning of year	832,673	502,654	112,356
			1,447,683
Cash balances end of year	\$ 816,830	492,522	106,827
			\$ 1,416,179
Cash Basis Fund Balances			
Restricted for debt service	\$ -	17,906	-
			\$ 17,906
Unrestricted	816,830	474,616	106,827
			1,398,273
Total cash basis fund balances	\$ 816,830	492,522	106,827
			\$ 1,416,179

See notes to financial statements.

City of Osage

City of Osage

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, Cedar River Recreation and Fine Arts Complex, and Burr Oak-Cedar-East Lincoln-Mitchell-Osage Townships.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Cemetery Perpetual Care Fund and Ingeborg Hallingby Memorial Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for projects related to the construction of capital assets including the 2008 Street Project and CRC pool project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$13,996</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in Treasury Direct has a credit risk rating of 1.

(3) Bonds and Notes Payable

Due to the planning, undertaking, and carrying out of urban renewal project activities associated with the Cedar River Complex and municipal swimming pool facilities, the City called the 2008 Urban Renewal Revenue Annual Appropriation Capital Loan Notes with a balance of \$2,695,000 and refunded on September 1, 2010 with two Urban Renewal Revenue Annual Appropriation Bonds for a total of \$4,145,000.

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 241,000	\$ 145,183	362,000	176,114	\$ 603,000	\$ 321,297
2013	246,000	138,880	379,000	165,039	625,000	303,919
2014	251,000	131,420	190,000	152,855	441,000	284,275
2015	256,000	123,597	215,000	146,017	471,000	269,614
2016	266,000	114,718	240,000	138,055	506,000	252,773
2017-2021	1,094,000	423,342	1,450,000	537,010	2,544,000	960,352
2022-2026	595,000	237,285	1,525,000	181,250	2,120,000	418,535
2027-2029	415,000	52,390	-	-	415,000	52,390
Total	\$ 3,364,000	\$ 1,366,815	4,361,000	1,496,340	\$ 7,725,000	\$ 2,863,155

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the special revenue and enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds and tax increment revenue bond sinking account within the Special Revenue Funds for the purpose of making the bond principal and interest payments when due.
- (c) Funds shall be placed in reserve account from the proceeds of the bonds within the Special Revenue Fund. This account is restricted for the purpose of paying note and interest payments which the other accounts might be unable to make.
- (d) As of June 30, 2011 these provisions have been met.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$70,226, \$67,874, and \$64,670, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$46,701
Compensatory	<u>3,066</u>
Total	<u>\$49,767</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses in the form of a traditional plan or a high deductible plan each costing the City the same amount. There are 17 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The City currently has 4 plans available through their Wellmark policy. The most recent active member monthly premiums for the City and plan members are \$528.36 for single, \$1,082.08 for employee and spouse, \$1,000.18 for employee and child, and \$1,621.53 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$231,656 and plan members eligible for benefits contributed \$16,336 to the plan.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 239,154
	Local Option Sales Tax	121,256
	Parks and Recreation	24,104
	Emergency Levy	19,155
	Police Special Project	4,414
	Enterprise:	
	Solid Waste	12,000
		<u>\$ 420,083</u>
Special Revenue:		
Jaws of Life	General	\$ 200
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 187,915
	Local Option Sales Tax	54,548
	Capital Projects	204,439
		<u>\$ 446,902</u>
Capital Projects	Special Revenue:	
	Local Option	\$ 136,369
	Tax Increment Financing	922,569
		<u>\$ 1,058,938</u>
Total		<u>\$ 1,926,123</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$3,321 during the fiscal year ended June 30, 2011.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Component Unit

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 144,444
Billing services (bookkeeping)	18,726
Phone and internet	7,049
Miscellaneous	37,934
Total	<u>\$ 208,153</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 987,406
Donations in lieu of taxes	77,472
Bond principal and interest	156,241
Cable franchise fee	25,701
Note Proceeds	360,000
Pool Support Donations	36,000
Miscellaneous	4,873
Total	<u>\$ 1,647,693</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected or appointed representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2011, the City of Osage paid Jendro Sanitation \$126,195 for City wide pickup. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$741 per month. The balance owed to the City at June 30, 2011 by OMI was \$91,110. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2011 by A to Z Drying, Inc. was \$48,309.

Under the Main Street Loan Program, the City provided funds to small businesses along Main Street during fiscal years 2003-2006, in accordance with the provisions of Chapter 15A of the Code of Iowa in the form of eighteen loans with no interest. The balance of the loans at June 30, 2011 is \$44,320. Payments are to be made on January 10th for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10th of the fifth year.

The Commercial Loan Program expanded on the Main Street Loan Program in 2006 to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of twenty-one loans with no interest. The balance of these loans at June 30, 2011 was \$124,400 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(13) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$907,157 is outstanding at June 30, 2011. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(14) Leases

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Verizon Wireless under three and five-year renewable operating leases. The City receives monthly payments of \$113, \$215 and \$576 from U.S. Cellular, Osage Municipal Utilities and Verizon Wireless, respectively. Under the terms of the current lease agreements, annual payments for each of the following four fiscal years are as follows:

2012	10,444
2013	2,737
2014	2,737
2015	686

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage received a payment of \$4,000 for year two of the two-year renewable lease in fiscal year 2011.

Total rent income from leases for fiscal year ending June 30, 2011 was \$14,869.

Also, the City leases the parking lot property from Mayer's Digging Company at the soccer field. The City pays \$1 per year for the property renewable annually.

(15) Commitments

As of June 30, 2011, the City did not have any pending projects.

(16) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare was current on their payments as of June 30, 2011.

(17) Partial Self Funded Insurance

The City will pay up to \$500 for a single and up to \$1,000 for a family for each employee's deductible on his or her health insurance plan. For the period ending June 30, 2011 the City had six employees on the partial self funded insurance plan with a maximum liability of \$5,500 and expenditures of \$205 leaving a remaining liability of \$5,295 thru the end of December 2011.

(18) Subsequent Events

On September 19, 2011 the Council held a public hearing and approved the bid with Wagner Construction Company of \$60,800 for work on the well pump house project on the corner of 7th Street and State Street and the building of a public restroom.

City of Osage

City of Osage

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 910,338	-	-
Tax increment financing	589,220	-	-
Other city tax	339,082	-	-
Licenses and permits	8,049	-	-
Use of money and property	79,327	28,713	1
Intergovernmental	470,221	-	-
Charges for service	100,715	983,761	-
Special assessments	264,414	-	-
Miscellaneous	775,559	1,092	3,779
Total receipts	<u>3,536,925</u>	<u>1,013,566</u>	<u>3,780</u>
Disbursements:			
Public safety	544,783	-	-
Public works	532,216	-	-
Culture and recreation	631,683	-	-
Community and economic development	297,984	-	-
General government	271,159	-	-
Debt service	3,688,210	-	-
Capital projects	1,565,687	-	-
Business type activities	-	1,033,069	-
Total disbursements	<u>7,531,722</u>	<u>1,033,069</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(3,994,797)	(19,503)	3,780
Other financing sources (uses), net	<u>4,517,001</u>	<u>(12,001)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	522,204	(31,504)	3,780
Balances beginning of year	<u>3,447,707</u>	<u>1,447,683</u>	<u>101,125</u>
Balances end of year	<u>\$ 3,969,911</u>	<u>1,416,179</u>	<u>104,905</u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 910,338	912,766	912,766	\$ (2,428)
589,220	554,500	592,000	(2,780)
339,082	347,400	338,800	282
8,049	2,450	6,450	1,599
108,039	81,527	101,507	6,532
470,221	483,692	549,465	(79,244)
1,084,476	1,172,665	1,202,411	(117,935)
264,414	161,820	257,670	6,744
772,872	220,254	307,129	465,743
<u>4,546,711</u>	<u>3,937,074</u>	<u>4,268,198</u>	<u>278,513</u>
544,783	951,736	974,136	429,353
532,216	558,715	578,715	46,499
631,683	573,153	689,338	57,655
297,984	203,300	388,970	90,986
271,159	263,773	276,318	5,159
3,688,210	850,011	3,666,311	(21,899)
1,565,687	652,285	1,595,155	29,468
1,033,069	1,059,794	1,059,794	26,725
<u>8,564,791</u>	<u>5,112,767</u>	<u>9,228,737</u>	<u>663,946</u>
(4,018,080)	(1,175,693)	(4,960,539)	942,459
<u>4,505,000</u>	<u>225,700</u>	<u>4,530,700</u>	<u>(25,700)</u>
486,920	(949,993)	(429,839)	916,759
<u>4,794,265</u>	<u>4,686,324</u>	<u>4,794,266</u>	<u>(1)</u>
<u>\$ 5,281,185</u>	<u>3,736,331</u>	<u>4,364,427</u>	<u>\$ 916,758</u>

Required Supplementary Information

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$4,115,970 and increased budgeted receipts by \$331,124. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information

City of Osage
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue					
	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Hotel/ Motel	Jaws of Life
Receipts:						
Property tax	\$ -	-	238,567	19,108	-	-
Other city tax	272,738	-	546	44	28,733	-
Use of money and property	2,381	69	-	-	373	115
Intergovernmental	-	-	41	3	-	-
Charges for service	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	-	11,743	400
Total receipts	275,119	69	239,154	19,155	40,849	515
Disbursements:						
Operating:						
Public safety	-	-	-	-	500	182
Public works	-	-	-	-	-	-
Culture & recreation	-	-	-	-	1,769	-
Community and economic development	-	-	-	-	52,629	-
General government	-	-	-	-	2,429	-
Capital projects	-	-	-	-	-	-
Total disbursements	-	-	-	-	57,327	182
Excess (deficiency) of receipts over (under) disbursements	275,119	69	239,154	19,155	(16,478)	333
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	200
Operating transfers out	(312,172)	-	(239,154)	(19,155)	(2,500)	-
Total other financing sources (uses)	(312,172)	-	(239,154)	(19,155)	(2,500)	200
Net change in cash balances	(37,053)	69	-	-	(18,978)	533
Cash balances beginning of year	170,043	5,399	-	-	36,825	8,410
Cash balances end of year	\$ 132,990	5,468	-	-	17,847	8,943
Cash Basis Fund Balances						
Nonspendable	\$ -	-	-	-	-	-
Restricted for:						
Streets	-	-	-	-	-	-
Other purposes	-	5,468	-	-	-	-
Committed	132,990	-	-	-	17,847	8,943
Total cash basis fund balances	\$ 132,990	5,468	-	-	17,847	8,943

See accompanying independent auditors' report.

	Special				
	Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Main Street Loan	Capital Improvement Revolving
Receipts:					
Property tax	\$ -	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	772	915	6,610	204	7,812
Intergovernmental	-	-	-	-	-
Charges for service	12,530	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	22,509	38,817	-	9,709	-
Total receipts	<u>35,811</u>	<u>39,732</u>	<u>6,610</u>	<u>9,913</u>	<u>7,812</u>
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture & recreation	-	-	-	-	-
Community and economic development	-	56	-	40,014	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>-</u>	<u>56</u>	<u>-</u>	<u>40,014</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>35,811</u>	<u>39,676</u>	<u>6,610</u>	<u>(30,101)</u>	<u>7,812</u>
Other financing sources (uses):					
Operating transfers in	2,500	-	-	50,000	-
Operating transfers out	(24,104)	(50,000)	-	-	-
Total other financing sources (uses)	<u>(21,604)</u>	<u>(50,000)</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Net change in cash balances	14,207	(10,324)	6,610	19,899	7,812
Cash balances beginning of year	<u>54,035</u>	<u>63,775</u>	<u>168,504</u>	<u>13,631</u>	<u>401,271</u>
Cash balances end of year	<u>\$ 68,242</u>	<u>53,451</u>	<u>175,114</u>	<u>33,530</u>	<u>409,083</u>
Cash Basis Fund Balances					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Streets	-	-	-	-	-
Other purposes	4,051	-	-	33,530	-
Committed	<u>64,191</u>	<u>53,451</u>	<u>175,114</u>	<u>-</u>	<u>409,083</u>
Total cash basis fund balances	<u>\$ 68,242</u>	<u>53,451</u>	<u>175,114</u>	<u>33,530</u>	<u>409,083</u>

Schedule 1 Con't

Revenue		Permanent			
Police Special Project /DARE	I-JOBS	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	Total	
-	-	-	-	\$ 257,675	
-	-	-	-	302,061	
178	-	-	1	19,430	
200	18,398	-	-	18,642	
-	-	-	-	12,530	
-	-	-	-	-	
1,500	-	3,779	-	88,457	
1,878	18,398	3,779	1	698,795	
-	-	-	-	682	
-	6,639	-	-	6,639	
-	-	-	-	1,769	
-	-	-	-	92,699	
-	-	-	-	2,429	
-	-	-	-	-	
-	6,639	-	-	104,218	
1,878	11,759	3,779	1	594,577	
-	-	-	-	52,700	
(4,414)	-	-	-	(651,499)	
(4,414)	-	-	-	(598,799)	
(2,536)	11,759	3,779	1	(4,222)	
12,169	-	100,824	301	1,035,187	
9,633	11,759	104,603	302	\$ 1,030,965	
-	-	104,603	300	\$ 104,903	
-	11,759	-	-	11,759	
3,142	-	-	2	46,193	
6,491	-	-	-	868,110	
9,633	11,759	104,603	302	\$ 1,030,965	

City of Osage
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2002 Street Improvement and Telecom	7/1/2002	2.35-4.40%	\$ 630,000
2003 Urban Renewal	12/9/2003	3.95%	140,000
2008 Street Improvement	6/1/2008	2.75-4.00%	1,345,000
2009 Public Safety Building	7/1/2009	2.80-6.20%	2,010,000
2010 REDLG Public Safety	8/6/2010	0.00%	360,000
Total			
Revenue bonds:			
2008 Swimming Pool and Urban Renewal	6/1/2008	4.00%	\$ 3,000,000
2009 Sewer Revenue Refunding Capital Loan Notes	4/1/2009	2.75-3.15%	797,000
2010A Urban Renewal Revenue Annual Appropriation	9/1/2010	1.00-4.70%	3,770,000
2010B Urban Renewal Revenue Annual Appropriation	9/1/2010	4.75%	375,000
Total			

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
220,000	-	220,000	\$ -	\$ 1,757	-
10,000	-	10,000	-	197	-
1,230,000	-	120,000	1,110,000	44,823	-
2,010,000	-	80,000	1,930,000	106,320	-
-	360,000	36,000	324,000	-	-
<u>3,470,000</u>	<u>360,000</u>	<u>466,000</u>	<u>\$ 3,364,000</u>	<u>\$ 153,097</u>	<u>-</u>
2,695,000	-	2,695,000	\$ -	\$ 27,762	-
608,000	-	197,000	411,000	18,364	-
-	3,770,000	135,000	3,635,000	112,166	-
-	375,000	60,000	315,000	13,359	-
<u>3,303,000</u>	<u>4,145,000</u>	<u>3,087,000</u>	<u>\$ 4,361,000</u>	<u>\$ 171,651</u>	<u>-</u>

Other Supplementary Information

City of Osage

Bond and Note Maturities

June 30, 2011

General Obligation Notes							
Year Ending June 30,	2009 Public Safety Building Issued Jun 1, 2008		2008 Street Improvement Issued Jun 1, 2008		2010 REDLG Public Safety Issued Aug 6, 2010		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2012	2.80	80,000	3.25	125,000	0.00	36,000	241,000
2013	3.85	85,000	3.35	125,000	0.00	36,000	246,000
2014	3.85	85,000	3.50	130,000	0.00	36,000	251,000
2015	4.65	85,000	3.65	135,000	0.00	36,000	256,000
2016	4.65	90,000	3.80	140,000	0.00	36,000	266,000
2017	5.00	95,000	3.90	145,000	0.00	36,000	276,000
2018	5.00	95,000	4.00	150,000	0.00	36,000	281,000
2019	5.35	100,000	4.00	160,000	0.00	36,000	296,000
2020	5.35	100,000	-	-	0.00	36,000	136,000
2021	5.75	105,000	-	-	-	-	105,000
2022	5.75	110,000	-	-	-	-	110,000
2023	5.90	115,000	-	-	-	-	115,000
2024	5.90	120,000	-	-	-	-	120,000
2025	6.00	125,000	-	-	-	-	125,000
2026	6.00	125,000	-	-	-	-	125,000
2027	6.20	130,000	-	-	-	-	130,000
2028	6.20	140,000	-	-	-	-	140,000
2029	6.20	145,000	-	-	-	-	145,000
Total		<u>\$ 1,930,000</u>		<u>\$ 1,110,000</u>		<u>\$ 324,000</u>	<u>\$ 3,364,000</u>

Revenue Bonds							
Year Ending June 30,	2009 Sewer Revenue Refunding Capital Loan Notes Issued Apr 3, 2009		2010A Urban Renewal Revenue Annual Appropriation Issued Sep 1, 2010		2010B Urban Renewal Revenue Annual Appropriation Issued Sep 1, 2010		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2012	3.15	202,000	2.00	105,000	4.75	55,000	362,000
2013	3.15	209,000	2.50	110,000	4.75	60,000	379,000
2014	-	-	3.00	125,000	4.75	65,000	190,000
2015	-	-	3.25	150,000	4.75	65,000	215,000
2016	-	-	3.50	170,000	4.75	70,000	240,000
2017	-	-	3.75	250,000	-	-	250,000
2018	-	-	4.00	275,000	-	-	275,000
2019	-	-	4.10	285,000	-	-	285,000
2020	-	-	4.20	310,000	-	-	310,000
2021	-	-	4.30	330,000	-	-	330,000
2022	-	-	4.40	345,000	-	-	345,000
2023	-	-	4.50	365,000	-	-	365,000
2024	-	-	4.60	400,000	-	-	400,000
2025	-	-	4.70	415,000	-	-	415,000
Total		<u>\$ 411,000</u>		<u>\$ 3,635,000</u>		<u>\$ 315,000</u>	<u>\$ 4,361,000</u>

See accompanying independent auditors' report.

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Eight Years

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:			
Property tax	\$ 910,338	\$ 862,795	839,252
Tax increment financing	589,220	546,172	522,457
Other city tax	339,082	373,545	338,849
Licenses and permits	8,049	5,989	4,596
Use of money and property	79,327	107,632	170,001
Intergovernmental	470,221	737,768	1,667,691
Charges for service	100,715	55,769	54,749
Special assessments	264,414	136,036	372,699
Miscellaneous	775,559	337,540	223,881
Total	<u>\$ 3,536,925</u>	<u>\$ 3,163,246</u>	<u>4,194,175</u>
Disbursements:			
Operating:			
Public safety	\$ 544,783	\$ 541,641	539,751
Public works	532,216	579,328	469,604
Culture and recreation	631,683	426,520	418,306
Community and economic development	297,984	585,756	1,424,797
General government	271,159	246,146	223,844
Debt service	3,688,210	633,140	453,268
Capital projects	1,565,687	2,258,179	3,774,284
Total	<u>\$ 7,531,722</u>	<u>\$ 5,270,710</u>	<u>7,303,854</u>

See accompanying independent auditors' report.

Schedule 4

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
816,163	986,053	948,134	924,410	929,385
504,941	474,680	433,742	400,831	372,459
351,569	281,002	245,649	222,034	235,857
8,414	6,424	6,245	7,033	7,100
163,946	130,831	111,443	61,027	37,216
636,485	405,980	432,009	645,194	450,225
61,844	62,590	62,099	50,849	61,464
77,316	302,380	60,104	198,032	95,373
188,078	153,387	182,660	191,797	203,630
<u>2,808,756</u>	<u>2,803,327</u>	<u>2,482,085</u>	<u>2,701,207</u>	<u>2,392,709</u>
601,197	439,691	451,189	414,667	422,064
508,426	399,694	351,946	356,906	458,405
481,000	422,427	413,221	413,562	380,765
616,383	368,506	125,515	100,988	452,292
238,329	217,936	257,076	209,121	190,628
138,241	539,631	431,218	462,534	1,447,522
569,203	285,069	580,557	193,032	404,607
<u>3,152,779</u>	<u>2,672,954</u>	<u>2,610,722</u>	<u>2,150,810</u>	<u>3,756,283</u>

City of Osage

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 19, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Osage's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-11 and II-C-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-11 to be a significant deficiency.

Compliance and Other Matters

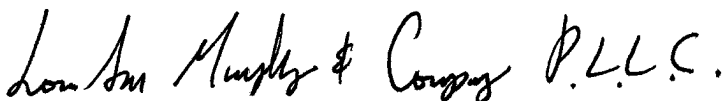
As part of obtaining reasonable assurance about whether the City of Osage's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osage's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Osage's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
September 19, 2011

City of Osage

Schedule of Findings

Year ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

City of Osage
Schedule of Findings
Year ended June 30, 2011

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-11 Library Petty Cash – It was noted that the library does not maintain their petty cash as an impressed balance, further daily monies collected are commingled with the petty cash fund rather than kept separate.

Recommendations – The library should set up an impressed balance petty cash fund to pay for miscellaneous items. They should also set up a separate system to account and track daily sales of items and deposit the collected sales daily.

Response – We will consider this.

Conclusion - Response accepted.

- II-C-11 Fire protection – It was noted that the City does not have adequate fire protection in the form of smoke detectors and/or non-water base fire suppression systems.

Recommendation – The City should place smoke detectors in all appropriate locations.

Response – We will do so.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2011

Part III: Other Findings Related to Statutory Reporting:

III-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceed the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response –In the future the budget will be amended, if applicable.

Conclusion – Response accepted.

III-B-11 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance, parts and labor	\$ 900
Mark Penney, Husband of City Clerk	Lawn work	342
Steven Cooper, Mayor, Owner of Coopers Auto	Parts and labor	1,983
John Michels, Park Board Member	Umpire	96

In accordance with Chapter 362.5(10) of the Code of Iowa, the third amount appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

City of Osage

Schedule of Findings

Year ended June 30, 2011

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

- III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-11 Revenue Bonds – The City has complied with the revenue bonds resolutions.
- III-I-11 Telecommunications Utility – Osage Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated August 9, 2011 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-11 Financial Condition – There were no funds with deficit balances at June 30, 2011.